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AUTHOR Massouh, Michael
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ABSTRACT

To many faculty and to some administrators the budget and its preparation are a mystery, conjured up and released by the chief business officer and president as a straight-jacket to aspirations and expectation. This document attempts to demonstrate that the budget is a straight-forward presentation to a college's constituents of the itemized plan of expected revenues and anticipated expenses. It is important, then, to inform faculty and staff about the characteristics of the budget to make the budget process more rational than mysterious. (Author/KE)

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COLLEGE BUDGETING: MYSTERIOUS OR RATIONAL PROCESS?

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Michael Massouh
Fellow, 1974-75
American Council on Education

Assistant Dean of the College
Utica College of Syracuse University

COLLECE BUDGETING: MYSTERIOUS OR RATIONAL PROCESS?

One of the areas of academic administration which I selected to study was the college budget and the process by which it comes into existence. After approaching the topic gingerly and with the usual scientific respect for the unknown, I finally began to make some headway in understanding what appeared to be a highly mysterious process. I have not discovered the full truth of the best, but rather its outlines which suggest that the budget is really a very straight-forward document. After making this profound discovery, I began to wonder why I had had my earlier views and why many faculty and staff still share it. This paper is an attempt to answer this question and to present, from a layman's perspective, what a budget is, what is involved in budgeting, and the benefits to be derived from a budget and the budgeting process.

What I have to say is based on my own readings, observations, and interviews with faculty and staff at about twelve colleges and universities I visited this academic year.[1] I have found the National Association of College and University Business Officers (NACUBO) recent publication, College and University Business Administration (1974) invaluable.[2] It is well organized, clearly written, and to its credit, places college and university business matters in the total perspective of an education institution. Edward S. Lynn's and Robert J. Frieman's recent book Fund Accounting (1974) described the Theory and Practice of fund accounting in governmental bodies, and not-for-profit institutions.[3] Fund accounting is the method used for a college or a university and

knowledge of its characteristics helps to remove some of the mystery associated with college budgets. In most of what I say, I am thinking mostly of private institutions of higher education, although some comments may apply to public colleges and universities.

Part I: What is a College Budget

Part of the mystery associated with a college budget comes because those most knowledgeable about it, usually the chief business officer, communicate in their own special jargon, and may not realize that a layman does not fully comprehend the technicalities. It has been alleged that those most knowledgeable have purposely kept their secrets to themselves, or have interpreted questions from faculty to be a form of meddling in matters too practical for the scholar. It is alleged on the other hand that budget figures are open to anyone wishing to study them, but that no one makes the effort. As a consequence, there exists on many campuses an armed truce between the chief business officer and the faculty, usually represented in the person of the chief academic officer.

This uneasy alliance does not have to exist, and indeed should not. There are campuses where the chief business officer considers one of his major responsibilities to be educating the faculty to the intricacies of higher finance. More often than not he prepares periodic reports or "white papers," in which data are provided to give meaningful information, and meetings are held to brief faculty on the current situation and to answer questions. As college resources continue to shrink, both business officers and faculties will have to communicate well in order for existing resources to be used in the most effective way both fiscally and educationally.

At the risk of stating the obvious, a college budget is at least three things. It is (1) an accounting of a college's stewardship of its projected resources, (2) an itemized plan of operation, and (3) a part of an institution's long range planning efforts.

1) Accounting of Stewardship

It is perhaps necessary to state at the outset that a college or university is unlike a business or industrial enterprise. A college exists as a public trust and a testament of a society's aspirations for the search for truth. Through appropriate legislative bodies, a society charters an institution of higher learning to preserve the world's knowledge, to transmit to those seeking enlightenment something about the creation of that knowledge and the critical uses to which it has been put, and to increase and extend the world's knowledge through research and other scholarly and creative pursuits. One measure of a society's aspirations and of its enlightenment is the extent and quality of its educational system. A more important measure, however, is the degree of freedom existing within its colleges and universities for scholars to pursue their studies free from outside interference and free from want.[4]

Recognizing the importance of a college's or university's service and function, society not only charters an institution of higher learning, but also supports the institution through financial contributions. It is one distinctive characteristic of a college or university that the charges it makes for its services do not cover the entire cost of those services. Tuition and fees cover only a portion of the total costs of maintaining an institution of higher learning. The other postion comes

from individual donors, foundation grants, corporation gifts, and local, state, and federal grants.

A college's basic objective is to provide services that fulfill societal needs without regard to financial gain." The primary objective of a business or industry "is to increase the economic wealth of those who provide resources to finance its operations," i.e. the investor expects a profit on his investment. For a college, however, "those who provide resources to finance its operations" do not expect a profit on their contribution. Rather, they expect that the college's goals will be realized. Running parallel to these two different objectives is the difference in the accounting emphasis. For a commercial enterprise the "emphasis, then, in the accounting and reporting process is on the matching of expenses and revenues to determine net income (profit)." For an institution of higher learning "the accounting and reporting process must address itself to accounting for resources received and used rather than to the determination of net income."[5]

Fund accounting is the term used to describe the accounting method used to monitor the "resources received and used." "A fund is an accounting entity with a self-balancing set of accounts consisting of assets, liabilities, and a fund balance."[6] A college usually maintains several funds, only one of which is the current fund, sometimes called the operating budget. Other funds include loan funds, endowment funds, plant funds, and agency funds. Transfers occur between funds as conditions warrent, and indeed in the case of endowment funds, for example, each year's dividends are usually transferred to the current fund. Transfers, however, must conform to the stipulations of the funding source or of the governing board.

Funds are either given as restricted, that is, given for certain expressed purposes, or unrestricted and used at the discretion of the governing board. The purpose of a restricted fund can only be changed with the permission of the grantor or through a long legal procedure through the courts. A governing board can place its own restrictions on unrestricted funds and can, of course, later lift its own restrictions as necessity dictates.

Knowledge of the existence of fund accounting and of its workings helps to clarify some of the mystery of college financial matters in at least two cases. (1) One question usually asked by the uninitiated, particularly in tight financial times, is how can the college not have sufficient funds to cover its operations, i.e. a deficit, when it has all "those millions" in endowment. The answer comes in part by rephrasing the question using the concept of fund accounting: How can the college cover a deficit in its current fund account from its endowment fund account. There exists a projected deficit in the current fund account when expected income is less than expected expenses. The endowment fund account usually has restrictions placed on it so that only the interest and dividends earned in a particular year can be applied to the current fund, and most of this interest is earmarked for certain functions like scholarships. It cannot legally be used for other purposes. It is not possible to touch the principal of the endowment fund unless the governing board agrees to arrange for it either through requesting permission from the donor or through legal action or by lifting its own restrictions. Neither procedure is a governing board

anxious to do. Ultimately, the deficit is met either through contingency monies in the current fund, liquid reserves in a reserve fund, or should it be necessary from the principal of the endowment fund, or borrowing from a bank.

Obviously, covering a deficit for several years in a row from reserves or endowment is not a policy that can be sustained without jeopardy to the total fiscal health of an institution. Concern with balancing the current fund's expenses with the current fund's income becomes the major preoccupation of the governing board and chief administrative officers. For a balanced current fund is an index of the institutions vitality. On the other hand, one or two years of a deficit in the current fund, should not be construed as a sign of an unhealthy state, or as a cause for panic, because the current fund is not the total picture of an institution's financial posture.

(2) Another question asked is how can some item be purchased when it was not in the authorized budget. Usually some extenuating circumstance like theft or breakdown is given as the reason for purchasing the item. The mystery of where does the money come from when it was not in the budget is clarified in part by the concept of fund accounting and in part by recognizing that an authorized budget is an estimate. The item was purchased because it was needed during the budgeted year. As an estimate the budget cannot forecast or predict every event which may occur. This is why most authorized budgets have a contingency account to take care of these unpredicted occurrences. The money to purchase the item comes either from a contingency account in the budget, from unanticipated income, from another account in the budget, or from another fund.

The item is treated as a "budget exception." It was not included in the authorized operating budget or current fund, but it will occur in the audited budget called the financial statement at the end of the fiscal period.

2) Itemized Plan of Operation

NACUBO calls a budget "an itemized, authorized, and systematic plan of operation, expressed in dollars, for a given period."[7] This open-ended definition does not suggest a rigid, fixed document. Rather, it suggests that a budget is subject to change given unanticipated revenues or unexpected expenditures. A budget is really the best guess of income and expenses for the next given period. Not until the given period ends and an external audit is performed can anyone say exactly how much income occurred or where it was spent. When a budget is authorized by the governing board no one can tell what indeed will happen during the course of the fiscal year, and no one on the governing board expects the audited financial statement to be exactly like the authorized budget. Indeed, they recognize it as a conservative estimate of income, and a fair estimate of expense. Their hope is that the chief administrative officers will exceed their enrollment and development goals and thus realize a current fund surplus.

As an "itemized" plan of operation, a budget includes a balance sheet, a financial statement, and a summary of income and expenditures for the current fund with enough schedules to breakdown the summary to the smallest budget headings. Once the total budget is "authorized" by the governing board, the comptroller's office can begin entering for the next fiscal year

the amounts authorized for each of the budget headings. With the commencement of the fiscal year the comptroller can monitor the charges against the authorized amounts, so that each budget heading does not exceed its authorized expenditures. As a "systematic" plan of operation a budget allocates the available resources from tuition and grants to specific items and functions, and thus by choice, not to others.

3) Long Range Planning

A budget is also a part of an institution's long range planning effort. Forming one year of a five- or ten-year plan, the budget allocates resources to academic programs and support services to realize the goals of the institution. Without a long-range plan, it is difficult to tell where an institution has been or where it is going. Decisions about support of a program or hiring a faculty member have consequences beyond the year in which the decision was made. Planning is not merely theoretically desirable, it is becoming increasingly important to a college facing a decline in its resources. Planning "is the act of identifying, specifying, and selecting alternative goals, objectives, and courses of action for accomplishing the mission of the institution."[8]

A statement of the mission of the institution is the essential first step toward any planning function. It "should be sufficiently specific so that it can condition each planning decision,"[9] that is, guide the budget decision. If a specific item in the budget can be related to the overall objectives of the institution, decisions relating to its funding or the level of its funding can be resolved. In other words, if a specific item, e.g. a faculty position, a piece of equipment, a new building, is a high

priority item, its chances for funding are good. A low priority item will have less chance of being included in the budget.

To be effective "the planning process itself must be planned and it must be continuous. The master...plan for a college or university should be a living document that is updated at least annually in the regular course of evaluation and reporting, program projection, budget projection, and operation. For maximum effectiveness, it should be available to everyone associated with the institution."[10] One year's operating budget, then, encompasses decisions that will have an effect in succeeding years.

Part II: What is Budgeting

Budgeting is the name given to the other activities associated with the budget in the process of its formulation. Budgeting, or budgeting process, includes the involvement of the people affected by the budget who participate in its formulation and the mechanism for getting people at an institution to translate aspirations and goals into dollar figures and to choose priorities.

1) Involvement of People

Budgeting usually begins in the fall of the year preceding the year for which the budget will be operational, and involves all the budget heads in its preparation. Some institutions plan operating budgets two or sometimes three years in advance. The usual procedure is for the chief business officer to estimate income including endowment interest and cost figures including usually supplies, utilities, and debt service costs for the year being budgeted. He estimates these cost figures

from previous experience at the college and in checking forecasts which utility companies and banks provide.

Analyzing the information he receives, the chief business officer develops two or three options usually in the form of matrices. Each matrix contains the major categories of the budget with possible outcome for both income and expense. For example, should utility rates increase by a certain percent, and should professional salaries increase by another percent, etc., then tuition should be increased a certain amount, based on a given enrollment, and development targets need to be set at a certain figure, etc.

Presenting this analysis to the president and his cabinet (usually the chief academic officer, the chief student affairs officer, and the chief development officer) guidelines for estimating income and costs are determined. Each member of the president's cabinet then requests budgets within the guidelines determined from budget heads reporting to him, reviews them, changes them in the light of his overall goals for his area, and sends them on to the chief business officer to compile. This first compilation of all requests usually has a greater expense than income figure and invariably undergoes refinement in light of new porjections of income or expease until the anticipated income figure equals or preferably exceeds the anticipated expense figure. At this stage, usually in the spring of the year, the budget is presented to the governing board for review and authorization. Before the full board authorizes it, usually the executive committee of the board has been involved in the progress of the budget.

2) Mechanism for Translation

Budgeting is also the mechanism for getting people at an institution to translate aspirations and goals into dollar figures, and to choose priorities. Everyone at an institution of higher education has his own ideas about what would make the institution the greatest in the land. These ideas and dreams need to be reduced to a workable or feasible plan, and then need to pass, through the acid test of meeting the institution's mission as well as becoming a high priority program. Budgeting and planning attempt to translate ideas and dreams into reality. Of course, many dreams and ideas are never reduced to hard budget figures and fewer become translated into high priority items. This is not really a criticism of the budgeting process, but probably a flaw in the original dream or idea, or a recognition that there are more dreams and ideas generated than can possibly be implemented or funded at not one but a hundred institutions.

Part III: Benefits of Budgets and Budgeting

In addition to translating dreams into reality, budgets and the budgeting process have at least four benefits: 1) A budget and financial statement keep a college's or university's constituents informed about the stewardship of its resources, and hopefully convinced to continue their financial support. 2) Properly constituted the budgeting process allows decision making to be shared in the best sense of collegiality. 3) Sharing of decision making tends to promote morale. Finally, 4), a budget provides important data necessary for academic and institutional planning.

1) Informed about Stewardship

The full benefits of budgets and budgeting have not been realized. There still exists at many colleges a reluctance to inform all constituents of the figures in the budget. This reluctance also includes the fear of showing dirty linen in public. A college or a university has traditionally kept its business to itself, i.e. usually to one or two officers of the administration and one or two on the governing board. Very rarely did a college president or chief business officer share the total financial situation with colleagues at other institutions, or in fact, with colleagues at home. This attitude began to change about 1971 with the publication of Earl F. Cheit's study of 41 institution's financial outlook in The New Depression.[11] Since then colleges and universities are more willing than before to share their plight and seek advice and assistance. Cheit published a follow-up, The New Depression - Two Years Later,[12] in which it is pointed out that no longer is the financial difficulties at an institution in the same category as a social disease -- i.e. rarely discussed.

The nature of a college's funding requires that it inform its constituents about how it managed its resources, both human and fiscal. It is an acknowledgement of society's commitment to an institution of higher education, that an accounting of its stewardship of the resources given to it in trust be made public. For an institution of higher education to perform its vital function in society today and in the future, its constituents also need to know and to agree with its mission and goals. Aware of a college's goals the constituents can continue to contribute to their realization. Increased support through increased awareness is a desirable benefit and one which few colleges can afford to be without.

No college can afford to operate without new resources each year from its constituents.

The governing board, as a vital constituent of a college, has the legal responsibility for the management of a college's resources, Knowledgeable about the college's resources and mission, it is in a position to assess the management, to suggest change, and to provide moral and financial support. Members of a governing board can also serve as spokesmen for the institution to their business and professional colleagues not formally associated with the college or university and thus increase support for the institution.

2) Involvement of Faculty and Staff

Faculty and staff are two important constituents who contribute services, ideas, and perform the tasks needed to operate a college or a university. Involving more faculty and staff in the preparation of the total budget is perhaps the best way to correct the misunderstanding and remove the mystery usually associated with budgetary matters. No longer does the business manager determine the allocation of funds after consulting with the other senior administrative officers. Rather, the trend is for all senior officers to participate fully in the preparation of the budget, and to involve at the next level down from them people who report to them, and so forth, until each person at the institution has a say in the decisions effecting him. This trend can be explained in part by the recognition that to give a senior officer responsibility over a functional area of the college and not give him fiscal responsibility is a waste of resources and is not an effective use of top management talent. The

trend is also a recognition that the duties and responsibilities of a college business manager have mushroomed in the past few years through such things as increasing state and federal reports and regulations and collective bargaining activities.

NACUBO points out that a vital "key to effective planning is involvement," because this involvement "enhances [a person's] commitment to achievement." NACUBO recognizes that "plans must be developed with the understanding and cooperation of those responsible for [their] execution," since these people will ultimately "be involved in implementation."[13]

3) Promotes Morale

Involving as many faculty as possible in dealing with the preparation of a budget and of the long range plans tends to promote morale. Faculty will be affected by budgets and plans, and so their commitment is desirable. In increasingly tight fiscal times when budgets are trimmed and plans are postponed, it is necessary for a faculty to understand the reason for the sacrifices they are called upon to make. Consequently, they need to be fully apprised of the total financial situation, the enrollment trends, and other data which have integrity and are convincing.

Without such full briefing and clear straight-forward information, speculation and suspicion abound, and morale is impaired. Faculty feel that there is something to hide when answers to their questions are evasive, or when data presented are not clear or cannot be compared with data from previous years or reports. There is no reason not to present data about the financial situation in a frank and open manner so that they can be

understood by a rational layman. In reality most of a given budget is fixed. It includes salaries, fringe benefits, cost of utilities, debt service, and other fixed xosts. The amount available for new and expanding programs is limited. Faculty need to know this and their suggestions may be helpful in allocating the unfixed amounts.

One assumption underlying the need to involve faculty more fully in the budget process is that faculty will respond fairly and rationally to the data. They will agonize over decisions, but will indeed make the necessary hard choices about program and faculty, even though they may not like the decision they have to make. Even though they may make hard choices reluctantly, they nevertheless can live with the decision because it was arrived at openly and honestly. Moreover, faculty are in the best position to assess their peers' performance, and when pressed will admit which faculty and programs are weakest. Faculty will agree to selective trimming of faculty and programs, but will not necessarily agree to wholesale across the board cuts. Properly convinced of the need to take action, they are then in a position to assure their colleagues in the best workings out of collegiality that the decisions were arrived at fairly and with full information, and not capriciously nor arbitrarily.

4) Data for Planning

A systemmatized, itemized budget provides planners with a record of decisions for one fiscal year. Several such budgets covering a period of years provides invaluable information to note trends and to test the outcome of earlier decisions. Coupled with other institutional data such as enrollment trends, class size, and the number of students in a major, the chief administrative officers can study, analyze, and describe the institution at any point in time. They are thus in an informed posture to

plan for the next year's budget or for the long-range future like in a five to ten year plan.

Part IV - Summary

A college budget and its preparation are the agenda items of a great number of meetings throughout the year on a college campus, and involve the time and energy of faculty, staff, administrative officers, and the governing board. No other topic, including curricular matters receives as much attention from so many people as does the budget. Yet, to many faculty and to some administrators the budget and its preparation are a mystery, conjured up and released by the chief business officer and president as a straight-jacket to aspirations and expectation.

This paper has attempted to demonstrate that the budget is a straightforward document presenting to a college's constituents the itemized plan of expected revenues and anticipated expenses. It is important, then, to inform faculty and staff about the characteristics of the budget in order to make the budget process more rational than mysterious.

FOOTNOTES

1. In alphabetical order, the colleges and universities I visited include College of Wooster, Hiram College, Monroe Community College, New York University, Ohio Wesleyan University, Rochester Institute of Technology, St. John Fisher College, State University of New York at Brockport, University of Oklahoma, University of Rochester, Utica College of Syracuse University

2. National Association of College and University Business Officers, College & University Business Administration (Washington, D.C., 1974). This edition is a totally revised, much enlarged publication of the 1968 edition of the same name published by the American Council on Education. The 1974 edition will be referred to as CUBA-1974.

3. Edward S. Lynn and Robert J. Freeman, Fund Accounting: Theory and Practice (Englewood Cliffs, N.J.: Prentice-Hall, 1974). Although published the same year as CUBA-1974 chapter 21 on "Accounting for Colleges and Universities" refers to the 1968 edition of College and University Business Administration.

4. If scholars are not supported above the subsistence level, there is less likelihood of their having the time or peace of mind to engage in scholarly activities. Consequently, everyone in society, from students to donors, reap less from a college or university.

5. "Fundamental Concepts of Financial Accounting and Reporting." Section 5:1 in CUBA-1974, 1.

6. Ibid., 2.

7. "Budgets and Budgetary Accounting," Section 4:3 in CUBA-1974, 1.

8. "Institutional Planning," Section 2:1 in CUBA-1974, 1.

9. Ibid.

10. Ibid.

11. Earl Frank Cheit, The New Depression in Higher Education (New York: McGraw-Hill, 1971)

12. Earl Frank Cheit, The New Depression in Higher Education - Two Years Later (Berkeley: Carnegie Commission on Higher Education, 1973)

13. "Institutional Planning," op. cit., 1.